

Federal Court Approves Global Research Analyst Settlement

***SEC v. Bear, Stearns & Co. Inc.*, No. 03 Civ. 2937 (WHP) (S.D.N.Y.)**

***SEC v. Jack Benjamin Grubman*, No. 03 Civ. 2938 (WHP) (S.D.N.Y.)**

***SEC v. J.P. Morgan Securities Inc.*, No. 03 Civ. 2939 (WHP) (S.D.N.Y.)**

***SEC v. Lehman Brothers, Inc.*, No. 03 Civ. 2940 (WHP) (S.D.N.Y.)**

***SEC v. Merrill Lynch, Pierce, Fenner & Smith Incorporated*, , No. 03 Civ. 2941 (WHP) (S.D.N.Y.)**

***SEC v. U.S. Bancorp Piper Jaffray, Inc.*, No. 03 Civ. 2942 (WHP) (S.D.N.Y.)**

***SEC v. UBS Securities LLC, f/k/a UBS Warburg LLC*, No. 03 Civ. 2943 (WHP) (S.D.N.Y.)**

***SEC v. Goldman, Sachs & Co.*, No. 03 Civ. 2944 (WHP) (S.D.N.Y.)**

***SEC v. Citigroup Global Markets Inc., f/k/a Salomon Smith Barney Inc.*, No. 03 Civ. 2945 (WHP) (S.D.N.Y.)**

***SEC v. Credit Suisse First Boston LLC, f/k/a Credit Suisse First Boston Corporation*, , No. 03 Civ. 2946 (WHP) (S.D.N.Y.)**

***SEC v. Henry McKelvey Blodget*, No. 03 Civ. 2947 (WHP) (S.D.N.Y.)**

***SEC v. Morgan Stanley & Co. Incorporated*, No. 03 Civ. 2948 (WHP) (S.D.N.Y.)**

The Securities and Exchange Commission announced today that the Honorable William H. Pauley III, United States District Judge for the Southern District of New York, issued an Order approving the \$1.4 billion global settlement of the SEC enforcement actions against ten of the nation's top investment firms and two individuals alleging undue influence of investment banking interests on securities research at brokerage firms.

In addition to the Order, which applies to all 12 actions that are part of the global settlement, the Court also entered separate Final Judgments as to each of the 12 defendants, Orders Regarding Distribution Fund Plan as to nine of the investment firms and Orders Regarding Investor Education as to seven of the firms. The Orders Regarding Distribution Fund Plan provide further details as to investors who may be eligible to receive proceeds from the Distribution Funds to be created as part of the global settlement. The Orders Regarding Investor Education set forth a framework and guidelines for the formation of a non-profit grant administration organization to fund worthy and cost-efficient programs designed to equip investors with the knowledge and skills necessary to make informed investment decisions.

The Allegations of the SEC's Complaints

The SEC filed its Complaints, the defendants' consents and proposed judgments on April 28, 2003. In its Complaints, the allegations of which the defendants neither admit nor deny, the SEC alleged that, from approximately mid-1999 through mid-2001 or later, all of the firms engaged in acts and practices that created or maintained inappropriate influence by investment banking over research analysts, thereby imposing conflicts of interest on research analysts that the firms failed to manage in an adequate or appropriate manner. The Complaints also alleged supervisory deficiencies at every firm.

In addition to these allegations, the Complaints included additional charges specific to each firm. According to the Complaints:

- Salomon Smith Barney (now known as Citigroup Global Markets) ("SSB"), Credit Suisse First Boston ("CSFB") and Merrill Lynch issued fraudulent research reports in violation of Section 15(c) of the Securities Exchange Act of 1934 and Rule 15c1-2 thereunder as well as various state statutes;
- Bear Stearns, CSFB, Goldman, Lehman, Merrill Lynch, Piper Jaffray, SSB and UBS Warburg (now known as UBS Securities) ("UBS") issued research reports that were not based on principles of fair dealing and good faith and did not provide a sound basis for evaluating facts, contained exaggerated or unwarranted claims about the covered companies, and/or contained opinions for which there were no reasonable bases in violation of New York Stock Exchange ("NYSE") Rules 401, 472 and 476(a)(6), and NASD, Inc., Rules 2110 and 2210 as well as state ethics statutes;
- UBS and Piper Jaffray received payments for research without disclosing such payments in violation of Section 17(b) of the Securities Act of 1933 as well as NYSE Rules 476(a)(6), 401 and 472 and NASD Rules 2210 and 2110. Those two firms, as well as Bear Stearns, J.P. Morgan and Morgan Stanley, made undisclosed payments for research in violation of NYSE Rules 476(a)(6), 401 and 472 and NASD Rules 2210 and 2110 and state statutes; and
- SSB and CSFB engaged in inappropriate spinning of "hot" Initial Public Offering ("IPO") allocations in violation of NYSE and NASD rules requiring adherence to high business standards and just and equitable principles of trade, and the firms' books and records relating to certain transactions violated the broker-dealer record-keeping provisions of Section 17(a) of the Securities Exchange Act of 1934, NYSE Rule 440 and NASD Rule 3110.

The Complaint against Grubman alleged that Grubman, a former SSB research analyst covering the telecommunications sector, issued research reports that were fraudulent, misleading, or that were not based on principles of fair dealing and good faith and did not provide a sound basis for evaluating facts, contained exaggerated or unwarranted claims about the companies, and/or contained opinions for which there was no reasonable basis under SSB's name. As a result, the Complaint alleges, Grubman aided and abetted SSB's violations of Section 15(c) of the Exchange Act and Rule 15c1-2 thereunder, which are antifraud provisions of the federal securities laws relating to broker-dealers, and violated NASD and NYSE rules as well as New York State law.

The Complaint against Blodget alleged that Blodget issued fraudulent research under the name of his former employer, Merrill Lynch, as well as research in which he expressed views that were inconsistent with privately expressed negative views. As a result, the Complaint alleges, Blodget aided and abetted Merrill Lynch's violations of Section 15(c) of the Exchange Act and Rule 15c1-2 thereunder and violated NASD and NYSE rules.

The Terms of the Final Judgments and Orders

The Final Judgments, Orders Regarding Distribution Fund Plan and Orders Regarding Investor Education entered today are substantially similar to the final judgments originally submitted to the Court. In particular, they impose the identical injunctive relief and monetary sanctions, and they impose the same requirements regarding separation of research and banking, disclosure, transparency and independent research.

Under the terms of the Final Judgments and Orders that Judge Pauley approved today, the ten firms, Grubman and Blodget will pay a total of \$894 million in penalties and disgorgement, consisting of \$397 million in disgorgement and \$497 million in penalties (which includes Merrill Lynch's previous payment of \$100 million in connection with its prior settlement with the states relating to research analyst conflicts of interest). Half of the \$775 million payment by the firms other than Merrill Lynch will be paid in resolution of actions brought by the SEC, NYSE and NASD and will be put into Distribution Funds to benefit customers of those firms. Half of Grubman's \$15 million total payment will be added to the SSB Distribution Fund. The SEC will in the future propose a plan of distribution for Blodget's \$4 million payment; that plan must be approved by the Court. The remainder of the funds has been paid or will be paid to the states.

In addition, the Final Judgments require the firms to make payments totaling \$432.5 million to fund independent research. Further, seven of the firms will make payments of \$80 million to fund and promote investor education. \$52.5 million of these funds will be put into an Investor Education Fund that will develop and support programs designed to equip investors with the knowledge and skills necessary to make informed decisions. The remaining \$27.5 million will be paid to state securities regulators and used for investor education purposes.

In addition to the monetary payments, the firms are required to undertake dramatic reforms to their future practices, including separating their research and investment banking departments and making independent research available to investors. Among other significant reforms included in the Final Judgments as to the firms are the following:

- To ensure that stock recommendations are not tainted by efforts to obtain investment banking fees, research analysts will be insulated from investment banking pressure. The firms will be required to sever the links between research and investment banking, including prohibiting analysts from receiving compensation for investment banking activities, and prohibiting analysts' involvement in investment banking "pitches" and "roadshows."
- To ensure that individual investors get access to objective investment advice, the firms will be obligated to furnish independent research. For a five-year period, each of the firms will be required to contract with no fewer than three independent research firms that will make available independent research to the firm's customers. An independent consultant for each firm will have final authority to procure independent research.

- To enable investors to evaluate and compare the performance of analysts, research analysts' historical ratings will be disclosed. Each firm will make its analysts' historical ratings and price target forecasts publicly available.

Key Differences Between the Final Judgments and Orders Entered Today and Those Originally Proposed

There are four primary differences between the Final Judgments and Orders entered today and the original proposed judgments. First, the Orders Regarding Distribution Fund Plan provide further details as to investors who may be eligible to receive proceeds from the Distribution Funds. The Final Judgments for each firm (other than Merrill Lynch) state that, to be an eligible recipient from that firm's Distribution Fund, a person must have purchased "equity securities in question" through that firm during the "relevant period of purchase." The Orders Regarding Distribution Fund Plan list the specific "equity securities in question" for each firm and the "relevant period of purchase" for each such equity security. The Orders state that the identification of "equity securities in question" and "relevant periods of purchase" is solely for the purpose of facilitating the efficient administration of the Distribution Fund Plans, is not a judicial or Commission finding, and is not intended to have precedential effect in other actions.

Second, the Orders Regarding Investor Education call for the establishment of a new Investor Education Entity, which may remain in existence for an indefinite period. As mentioned above, the Investor Education Entity will fund worthy and cost-efficient programs from the Investor Education Fund created as a result of the firms' investor education payments. These programs will be designed to equip investors with the knowledge and skills necessary to make informed investment decisions. The Investor Education Entity will be organized as a tax exempt organization pursuant to Section 501(c) of the Internal Revenue Code and will be structured so that it can receive additional money from sources other than the investor education payments that the firms are required to make under the Final Judgments. The Entity will have a Chairman, a Board of Directors and an Executive Director, who will oversee its day-to-day operations. Within the next 90 days, the Commission will propose an Investor Education Plan that will, among other things, provide further details on the structure and operation of the Investor Education Entity.

Third, the Final Judgments require the defendants to make their Distribution Fund and investor education payments to accounts established at the Federal Reserve Bank of New York ("FRB-NY"). The original proposed judgments had called for those payments to be made to the Court Registry Investment System ("CRIS"). As the Court pointed out in its June 2, 2003 Order in these actions, however, an affiliate of one of the defendants manages the CRIS accounts for the U.S. Courts and derives certain fees for its activities, thus creating a potential conflict of interest. Accordingly, the Court suggested, and the parties agreed to, the establishment of accounts at the FRB-NY.

Fourth, the Final Judgments call for a smaller administrative fee to be paid to the Court Clerk than did the original proposed judgments. This will allow more money to be provided to investors. Federal law requires court registry funds, such as the Distribution Funds, to pay a fee usually equal to ten percent of the income earned on the funds to the Court Clerk. The Court suggested that the Commission petition the Administrative Office of the U.S. Courts ("AOUSC") for a reduction in the fee. The Commission did so, and the AOUSC approved a reduction in the fee for the Distribution Funds to four percent of the income earned on the funds. The Final Judgments reflect this reduction.



The Commission acknowledges the assistance of NASD, NYSE, and state securities regulators in the investigation of this matter.

Information by Company

Bear, Stearns & Co. Inc.

- [SEC Final Judgment](/litigation/litreleases/judg18109.pdf) [\(/litigation/litreleases/judg18109.pdf\)](/litigation/litreleases/judg18109.pdf), *SEC v. Bear, Stearns & Co. Inc.*
 - Final Judgment [Appendix A](/litigation/litreleases/finaljudgadda.pdf) [\(/litigation/litreleases/finaljudgadda.pdf\)](/litigation/litreleases/finaljudgadda.pdf)
 - Final Judgment [Appendix B](/litigation/litreleases/finaljudgaddb.pdf) [\(/litigation/litreleases/finaljudgaddb.pdf\)](/litigation/litreleases/finaljudgaddb.pdf)
- [Bear Stearns Investor Education Order](/litigation/litreleases/inved18109.pdf) [\(/litigation/litreleases/inved18109.pdf\)](/litigation/litreleases/inved18109.pdf)
- [Bear Stearns Distribution Fund Plan Order](/litigation/litreleases/distr18109.pdf) [\(/litigation/litreleases/distr18109.pdf\)](/litigation/litreleases/distr18109.pdf)

Citigroup Global Markets Inc., f/k/a Salomon Smith Barney Inc.;
Jack Benjamin Grubman

Citigroup Global Markets

- [SEC Final Judgment](#) [\(/litigation/litreleases/judge18111.pdf\)](#), *SEC v. Citigroup Global Markets Inc.*
 - Final Judgment [Appendix A](#) [\(/litigation/litreleases/finaljudgadda.pdf\)](#)
 - Final Judgment [Appendix B](#) [\(/litigation/litreleases/finaljudgaddb.pdf\)](#)
- [Citigroup Global Markets Investor Education Order](#) [\(/litigation/litreleases/inved18111.pdf\)](#)
- [Citigroup Global Markets Distribution Fund Plan Order](#) [\(/litigation/litreleases/distr18111.pdf\)](#)

Jack B. Grubman

- [SEC Final Judgment](#) [\(/litigation/litreleases/judgm18111b.pdf\)](#), *SEC v. Jack Benjamin Grubman*

Credit Suisse First Boston LLC, f/k/a Credit Suisse First Boston Corporation

- [SEC Final Judgment](#) [\(/litigation/litreleases/judg18110.pdf\)](#), *SEC v. Credit Suisse First Boston LLC*
 - Final Judgment [Appendix A](#) [\(/litigation/litreleases/finaljudgadda.pdf\)](#)
 - Final Judgment [Appendix B](#) [\(/litigation/litreleases/finaljudgaddb.pdf\)](#)
- [Credit Suisse First Boston Distribution Fund Plan Order](#) [\(/litigation/litreleases/distr18110.pdf\)](#)

Goldman, Sachs & Co.

- [SEC Final Judgment](#) [\(/litigation/litreleases/judg18113.pdf\)](#), *SEC v. Goldman, Sachs & Co.*
 - Final Judgment [Appendix A](#) [\(/litigation/litreleases/finaljudgadda.pdf\)](#)
 - Final Judgment [Appendix B](#) [\(/litigation/litreleases/finaljudgaddb.pdf\)](#)
- [Goldman Sachs Investor Education Order](#) [\(/litigation/litreleases/inved18113.pdf\)](#)
- [Goldman Sachs Distribution Fund Plan Order](#) [\(/litigation/litreleases/distr18113.pdf\)](#)

J.P. Morgan Securities Inc.

- [SEC Final Judgment](#) [\(/litigation/litreleases/judgm18114.pdf\)](#), *SEC v. J.P. Morgan Securities Inc.*
 - Final Judgment [Appendix A](#) [\(/litigation/litreleases/finaljudgadda.pdf\)](#)
 - Final Judgment [Appendix B](#) [\(/litigation/litreleases/finaljudgaddb.pdf\)](#)
- [J.P. Morgan Investor Education Order](#) [\(/litigation/litreleases/inved18114.pdf\)](#)
- [J.P. Morgan Distribution Fund Plan Order](#) [\(/litigation/litreleases/distr18114.pdf\)](#)

Lehman Brothers Inc.

- [SEC Final Judgment](#) [\(/litigation/litreleases/judgm18116.pdf\)](#), *SEC v. Lehman Brothers Inc.*
 - Final Judgment [Appendix A](#) [\(/litigation/litreleases/finaljudgadda.pdf\)](#)
 - Final Judgment [Appendix B](#) [\(/litigation/litreleases/finaljudgaddb.pdf\)](#)
- [Lehman Brothers Investor Education Order](#) [\(/litigation/litreleases/inved18116.pdf\)](#)
- [Lehman Brothers Distribution Fund Plan Order](#) [\(/litigation/litreleases/distr18116.pdf\)](#)

Merrill Lynch, Pierce, Fenner & Smith Incorporated; Henry M. Blodget

Merrill Lynch, Pierce, Fenner & Smith Incorporated

- [SEC Final Judgment](#) [\(/litigation/litreleases/judgm18115.pdf\)](#), *SEC v. Merrill Lynch, Pierce, Fenner & Smith Incorporated*
 - Final Judgment [Appendix A](#) [\(/litigation/litreleases/finaljudgaddaml.pdf\)](#)
 - Final Judgment [Appendix B](#) [\(/litigation/litreleases/finaljudgaddb.pdf\)](#)
- [Merrill Lynch Investor Education Order](#) [\(/litigation/litreleases/inved18115.pdf\)](#)

Henry M. Blodget

- [SEC Final Judgment](#) [\(/litigation/litreleases/judg18115b.pdf\)](#), *SEC v. Henry M. Blodget*

Morgan Stanley & Co. Incorporated

- SEC Final Judgment (</litigation/litreleases/judge18117.pdf>), *SEC v. Morgan Stanley & Co. Incorporated*
 - Final Judgment Appendix A (</litigation/litreleases/finaljudgadda.pdf>)
 - Final Judgment Appendix B (</litigation/litreleases/finaljudgaddb.pdf>)
- Morgan Stanley Distribution Fund Plan Order (</litigation/litreleases/distr18117.pdf>)

UBS Warburg LLC

- SEC Final Judgment (</litigation/litreleases/judge18112.pdf>), *SEC v. UBS Warburg LLC*
 - Final Judgment Appendix A (</litigation/litreleases/finaljudgadda.pdf>)
 - Final Judgment Appendix B (</litigation/litreleases/finaljudgaddb.pdf>)
- UBS Warburg Investor Education Order (</litigation/litreleases/inved18112.pdf>)
- UBS Warburg Distribution Fund Plan Order (</litigation/litreleases/distr18112.pdf>)

U.S. Bancorp Piper Jaffray Inc.

- SEC Final Judgment (</litigation/litreleases/judge18118.pdf>), *SEC v. U.S. Bancorp Piper Jaffray Inc.*
 - Final Judgment Appendix A (</litigation/litreleases/finaljudgadda.pdf>)
 - Final Judgment Appendix B (</litigation/litreleases/finaljudgaddb.pdf>)
- Piper Jaffray Distribution Fund Plan Order (</litigation/litreleases/distr18118.pdf>)

See also: Spotlight on: The Global Research Analyst Settlement (</spotlight/globalsettlement.htm>)